

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 EUR-25 EA-11 NEA-10 ADP-00 AID-20

CIAE-00 COME-00 FRB-02 INR-09 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 SS-14

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FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 1174

INFO AMEMBASSY BONN

AMCONSUL DHARAHAN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

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AMEMBASSY TEHRAN

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AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION OECD PARIS

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SUBJECT: PETROLEUM: YAMANI ON CONSUMER BLOC, DOWNSTREAM,
SA INDUSTRIALIZATION

REF: TOKYO 2281; JIDDA 834 (NOTAL); LONDON 10953 11/25/72

SUMMARY: IN MIDDLE EAST ECONOMIC SURVEY (MEES) INTERVIEW DATED MARCH 16, SAUDI ARABIA OILMIN YAMANI SAID CONSUMER MOVEMENT TOWARD DIVERSIFICATION OF SOURCES OF
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ENERGY SUPPLIES WOULD " REDUCE ANY MORAL OBLIGATION WE MIGHT FEEL IN RESPECT OF UNNECESSARY INCREASES IN CRUDE OIL PRODUCTION" WHILE " FORMATION OF A CONSUMING COUNTRIES' BLOC TO CONFRONT THE OPEC COUNTRIES" WOULD " TOTALLY ELIMINATE" ANY SUCH OBLIGATION. HE ALSO SAID SAUDI DOWNSTREAM INVESTMENTS WOULD BE DEVOTED TO MARKETING SAUDI CRUDE AND CALLED FOR CONSUMER COUNTRY INVOLVEMENT IN SAUDI INDUSTRIALIZATION. ADDED THAT SAUDI ARABIA WILL START SELLING PARTICIPATION CRUDE IMMEDIATELY THROUGH PETROMIN. TEXT OF MEES' QUESTIONS AND YAMANI'S REPLIES FOLLOWS: END SUMMARY.

1. Q: TWO SIGNIFICANT MOVEMENTS PRESENTLY APPEAR TO BE AFOOT IN THE MAJOR INDUSTRIALIZED OIL CONSUMING COUNTRIES. ONE IS RELATED TO EFFORTS TO DIVERSIFY SOURCES OF ENERGY SUPPLIES IN ORDER TO REDUCE DEPENDENCE ON MIDDLE EAST OIL; THE OTHER CONCERNS CURRENT INITIATIVES BY CERTAIN GOVERNMENTAL AGENCIES AND PRIVATE INDIVIDUALS IN SOME CONSUMING COUNTRIES URGING THE FORMATION OF A CONSUMERS' BLOC TO CONFRONT THE PRODUCING COUNTRIES GROUPED WITHIN OPEC. WHAT IS YOUR VIEW REGARDING THESE DEVELOPMENTS?

A: WE IN THE OIL PRODUCING COUNTRIES WILL BE PLEASED WITH THE FIRST MOVEMENT - THAT TOWARDS DIVERSIFICATION - SINCE THIS WILL REDUCE ANY MORAL OBLIGATION WE MIGHT FEEL IN RESPECT OF UNNECESSARY INCREASES IN CRUDE OIL PRODUCTION. BY THE TERM " UNNECESSARY" I MEAN INCREASES IN PRODUCTION WHICH WOULD BE CARRIED OUT SPECIFICALLY TO MEET THE GROWTH IN WORLD DEMAND BUT WHICH WOULD NOT BE NECESSARY FROM THE STANDPOINT OF THE INTERNAL FINANCIAL AND ECONOMIC NEEDS OF THE PRODUCING COUNTRIES.

WITH REGARD TO THE SECOND MOVEMENT - THAT CALLING FOR THE FORMATION OF A CONSUMING COUNTRIES' BLOC TO CONFRONT THE OPEC COUNTRIES - I WOULD LIKE TO POINT OUT THAT, IN THE EVENT OF ANY SUCH CONFRONTATION BETWEEN THE CONSUMERS AND THE PRODUCERS, ANY MORAL OBLIGATION ON OUR PART TO UNDERTAKE UNNECESSARY INCREASES IN PRODUCTION WOULD BE TOTALLY ELIMINATED.

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2. Q: IN THE COURSE OF YOUR ADDRESS BEFORE THE TWENTY

SIXTH ANNUAL CONFERENCE OF THE MIDDLE EAST INSTITUTE AT GEORGETOWN UNIVERSITY IN WASHINGTON LAST OCTOBER, YOU MENTIONED THE POSSIBILITY OF INVESTMENTS BY SAUDI ARABIA IN DOWNSTREAM OPERATIONS IN THE CONSUMER COUNTRIES, AND THIS PROPOSAL HAS RECEIVED WORLD- WIDE INTEREST. CAN YOU ELABORATE ON THE ROLE WHICH SUCH INVESTMENTS CAN PLAY IN THE DEVELOPMENT OF THE NATIONAL OIL COMPANIES OF THE OIL PRODUCING COUNTRIES?

A: WHEN I SPOKE OF THE POSSIBILITY OF DOWNSTREAM INVESTMENTS BY THE NATIONAL OIL COMPANIES, I WAS OF COURSE SPEAKING OF THE LONG RATHER THAN THE SHORT TERM. FOR US, THE IDEA OF DOWNSTREAM INVESTMENTS IS DIRECTLY LINKED TO OUR EFFORTS TO MARKET OUR OWN OIL AND DEVELOP OUR NATIONAL OIL ENTITIES INTO FULLY INTEGRATED OIL COMPANIES.

MANY BANKERS AND INVESTMENT COMPANIES FROM ALL PARTS OF THE WORLD THINK THAT SAUDI ARABIA NOW HAS HUGE AMOUNTS OF SURPLUS CAPITAL FOR INVESTMENT ABROAD. THEY OVERLOOK THE FACT THAT HUGE SUMS OF MONEY, SUMS WHICH ARE NOT YET AVAILABLE, WILL BE URGENTLY NEEDED TO BUILD AN ECONOMIC INFRASTRUCTURE IN SAUDI ARABIA AND TO SUSTAIN A BROAD- BASED INDUSTRIALIZATION EFFORT AIMED AT DIVERSIFYING THE COUNTRY' S SOURCES OF INCOME.

I BELIEVE THAT THE CONSUMER COUNTRIES SHOULD TAKE ADVANTAGE OF SAUDI ARABIA' S INTERNAL INVESTMENT POLICY AND PARTICIPATE IN THE INDUSTRIALIZATION OF OUR COUNTRY, JUST AS THEY WOULD WANT US TO FINANCE DOWNSTREAM FACILITIES IN THEIR OWN. THERE ARE CERTAIN INDUSTRIES USING NATURAL GAS AS FEEDSTOCK OR A SOURCE OF ENERGY WHICH SHOULD NOT IN FUTURE BE BUILT IN THE CONSUMER COUNTRIES, OR EVEN BE MAINTAINED AT THEIR PRESENT SCALE OF OPERATIONS, IN VIEW OF THE SERIOUS SHORTAGE OF NATURAL GAS IN THESE COUNTRIES. IN CONTRAST SOME 1.7 BILLION CU. FT. OF GAS IS FLARED DAILY IN SAUDI ARABIA, AND THIS FIGURE WILL RISE AS OUR OIL PRODUCTION RISES. THIS GAS COULD SUPPORT LARGE PETROCHEMICAL OR OTHER GAS- BASED INDUSTRIES. IF THE CONSUMER COUNTRIES COOPERATE WITH US IN SUCH ENDEAVORS, THEY WOULD REDUCE LIMITED OFFICIAL USE

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THEIR ENERGY CONSUMPTION AND AT THE SAME TIME IMPROVE THEIR BALANCE OF PAYMENTS THROUGH THE EXPORT OF INDUSTRIAL EQUIPMENT TO THE OIL PRODUCING COUNTRIES.

FURTHERMORE, SAUDI ARABIA IS ONE OF THE BEST

LOCATIONS FOR EXPORT REFINERIES AND IT WILL GIVE THE
CONSUMERS FIRM
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